DEPARTMENT OF FINANCE
OFFICE OF HUMAN RESOURCES
FOLLOW-UP OF LEAVE ACCOUNTABILITY

August 1998

The County Council and County Executive
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of selected activities of the

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and our report is submitted herewith. The scope of our examination related specifically to a review of recommendations issued in a March 1997 report concerning leave accountability. The body of our report presents our findings and recommendations.

The contents of this report have been reviewed with the Chief Administrative Officer, the Director of Finance, the Human Resources Administrator or their designees. We wish to express our gratitude to those departments for the cooperation and assistance extended to us during the course of this engagement.

Ronald S. Weinstein, C.P.A.
County Auditor

Keith N. Zumbrun, C.I.S.A.
Auditor-in-Charge

INTRODUCTION AND SCOPE

In March 1997, the Office of the County Auditor issued a report relating to various employee leave balances. That report reviews the history of the various payroll and leave systems employed by the County over the years. Most recent was the conversion to Automatic Data Processing Inc. (ADP), an integrated system working with the Office of Human Resources and the Payroll Division in the Department of Finance.

The earning of leave is a County benefit that affects the County's financial statements, budgets and employee moral. Because of this impact, the March 1997 audit was intended to test the accounting of this asset and to offer improvements, if needed.

As part of our audit process, we perform follow-up reviews after an audit is completed to determine the status of the original report recommendations. In addition to the follow-up review, we examined the salary hour advance that occurred on January 11, 1991, and those findings will be addressed at the end of this report.

FOLLOW-UP OF MARCH 1997 RECOMMENDATIONS

We performed an audit of leave accountability of the Department of Finance and the Office of Human Resources and issued our report in March 1997. The contents of that report included seven recommendations for those areas that we determined needed improvement. The scope of this follow-up is to examine the status of implementation of those recommendations.

It has been one year since the initial review. We are pleased that a policy has been recently written that addresses the majority of our recommendations. Our discussions with appropriate personnel indicate that suggested reviews are occurring, forms have been revised, and retention schedules established. However, the following two recommendations were not implemented as stated:

Recommendation #5 (1997):

A program change request to the ADP system be initiated to calculate the prorated personal leave earnings of new hires. In the interim, a procedure be put in place that requires the manual input of personal leave, via the Hours Adjustment (HA) form, when the initial Personnel Action Form (PAF) is completed.

Current Status:

Human Resources decided to revise the Personal Data Form (PDF) and key from this document. They thought the program change would be cost prohibitive. No further action need be taken since this remedies the concern.

Recommendation #6 (1997):

The Office of Personnel prepare a policy to distribute to all supervisors stating that personal leave balances at termination are not to be paid off.

Current Status:

The Administration has not included this in the most recent Administrative Directive dated April 9, 1998. We were told that a dialog between Human Resources and the County Administration was open on this topic and at the time of this report, a decision was not available. However, on page 14 of the recently issued employee manual that all employees received, it states that: "Employees leaving employment will not be paid for unused personal leave." This satisfies the recommendation.

NEGATIVE LEAVE BALANCES

Our review of the 4/26/98 leave balance report revealed that 128 employee leave balances were negative. This compares to 172 negative leave balances in the previous report. The majority of the negative balances (87) were police union employees and is due to their accounting of leave on a day vs. hourly basis. We were told the union and County are negotiating a conversion of their leave to the basis used by all other County employees. Until this is resolved, we recommend:

1. ***A concentration of the Human Resource reviews be focused on police union employee leave balances to ascertain their correctness.***

   Administration's Response:

   The Administration concurs with this recommendation. The Office of Human Resources has recently obtained a disk of leave information from the Police Department. These leave balances are the focus of leave review by Human Resources analysts.

Additionally, we believe that the other existing negative balances will be reduced once the Administrative Directive (see Attachment 1) has been implemented fully and reviews are in place. The goal of no negative balances should certainly be aimed for, achieved and maintained as a part of County policy.

HOURS ADVANCE

In February 1991, the County offered the employees an opportunity to participate in a direct deposit program of their paycheck to a participating bank of the employee's choice. In order to prepare transactions within the required time frame to satisfy the bank and the County, the pay period ending date had to be earlier, without interrupting the frequency of the pay date. To accomplish this, the County advanced to all employees their standard weekly hours within the abbreviated pay period ending of December 30, 1990. This allowed a full pay check for each employee on their next scheduled pay date of January 11, 1991.

This was the second time in the County's history an hourly advance occurred. Prior to July 5, 1976, all employees were paid up to the exact day of the pay date. To help ease the paper crunch and allow for some lead time in check preparation, all employees were required to "bank" a week's pay. They were given three options:

A. Deduct one (1) week of pay

B. Deduct five days of earned annual leave

C. Delay the FY 77 5% Cost-Of-Living Adjustment (COLA) increase for the equivalent of 20 pays.

If no option was chosen within the required time frame, Option A above was chosen for the employee. Regardless of which option was chosen, the hourly advance was required to be settled by everyone immediately.

The hourly advance that occurred in 1991 allowed the employee the additional option of waiting until termination or change in employee status to pay back the advance but did not include the COLA option. The advanced hours are to be paid back at the employee's current hourly wage times the number of standard hours advanced (or then - current standard hours, which ever is less).

We noted that the initial hours advance was to 1,826 employees totaling $1,099,696 that was owed the County. As of March 13, 1998, 947 employees still owe the County $719,950 at today's current hourly rates.

The Howard County Library contracts with Howard County Government to run their payroll. Because of this, they follow similar payroll cut-off cycles. However, the Library has supervision over their employees that is separate from the County's administration. The Library found the program of administering the hourly advance labor intensive and costly. In order to close out all existing loans, they required all employees to choose an option that reduced annual leave/personal leave, or a combination of both leaves, by the hourly advance obligation, or to deduct one week's pay from their salary. This occurred over a six month period with a June 21, 1996, cut-off date. We have spoken to Payroll employees and have found that on several occasions the Department of Finance has issued letters reminding employees that they can pay off their advance now by using their accumulated leave to extinguish their obligation. We were told that many telephone calls were generated because of the ambiguity of the advance and the lack of understanding of the process by the employee. Additionally, we tested 20 terminations in 1997 to determine if the advances were being used to reduce the final payout. All but one was satisfied. We also know of one employee who went from full time to part time and did not pay off his advance. This should have occurred due to a change in employment status. Because he is now working a lesser amount of hours, his payoff, when it occurs, is now at his current standard hours. This is obviously less than what he initially received.

We noted that one union has successfully negotiated in its contract that the hours should be paid back at the rate of pay that was effective at the time of the advance. We have heard that other unions are planning to use this as a tool in their negotiations as the contracts are renewed again.

Because of the aforementioned concerns, employee moral, inequalities in payback rates, inconsistencies in collections, continuing time and paperwork requirements tracking this advance, and the liability to the County, we recommend that:

2. ***The County develop a plan that requires all Howard County employees who owe advance hours to pay them back by the end of calendar year 1998. The plan should include the following:***

   A. ***Provide a clear and descriptive explanation of the advance hours process to show the employee graphically how and why this occurred.***

   B. ***Provide options that would include using annual, personal or compensatory time leave.***

   C. ***Provide pay deduction options similar to furlough day pay reductions that pay the loan back over several pays.***

   D. ***A combination of B and C above to include a one time payback if the employee desires.***

   Administration's Response:

   Although the Administration recognizes that monitoring the advance hours program is labor intensive and costly, there are no plans at this time to make the advance hours pay back a mandatory policy. Departmental timekeepers are reminded to process the advance hours' pay back when the employees separate or change their service status with the County. In addition, the County has issued two official reminders to employees who owe the County this salary advance. The first time was in June of 1994 and the second time in February of 1998. The County has offered employees to pay back the advance hours by trading in hours of annual leave, a combination of annual leave and personal leave, or the equivalent in cash. The Department of Finance plans to reissue the formal reminder every February to employees. Attached is a sample of the reminder for your information.

   Auditor's Comments:

   We continue to believe that the extra time and costs associated with maintaining this time keeping issue, along with the possibility of not collecting this liability at termination, clearly illustrates the need to resolve this issue as soon as possible.